

Commodity Spotlight

year by China's import stoppage. However, in 2002/03, China should reclaim its role as the world's fastest growing soybean market. EU oilseed harvests fell by 0.3 mmt in 2001, so a shortfall of vegetable oils increased the profitability of soybean crushing last season. Domestic oilseed harvests are better this year, so EU soybean imports in 2002/03 should moderate. In Japan, higher costs of importing rapeseed and a ban on feeding meat and bone meal promoted consumption of soybean meal, a factor expected to continue into 2002/03. A very dry summer in Canada last year cut soybean production by more than 40 percent and sharply raised imports of soybeans and soybean meal. But, a recovery in this year's Canadian soybean crop should limit import needs in 2002/03.

Argentine farmers in 2002 reaped a bumper soybean harvest, 1.7 mmt larger than last year's, in spite of the many weather and financial obstacles. Even so, a standoff between suppliers and the government curtailed exports to a modest increase in 2001/02.

Argentina's default in December 2001 on its large public debt forced currency devaluation in January. The peso had been pegged at a one-to-one rate to the U.S. dollar since 1991. But in February, the currency was allowed to freely float and has subsequently depreciated to around 3.6 pesos per dollar. By itself, such a large devaluation should benefit agricultural exports in the long run. However, oilseed exports temporarily ceased because of disputes over the government's reluctance to repay about \$600 million of value-added taxes owed to agricultural exporters. With international grain companies compelled to finance their own trade, tighter controls on the dollar exchange slowed foreign sales. The government

also converted all current dollar-denominated debts in the country (except farm debts) to pesos at a rate of one peso per dollar. Most significantly, the government raised export taxes to 23.5 percent for oilseeds and 20 percent for oilseed products. Argentina had imposed export taxes on agricultural products in the 1980s, but mostly abandoned them by 1991, retaining only a modest 3.5-percent tax on oilseeds.

Although the domestic soybean price in Argentina soared following the January devaluation, unpredictable policy shifts on export taxes, value-added tax refunds, and farm debt squelched the immediate incentives to export. In the current economic climate, producers lack confidence in the banking system and see their dollar-based soybeans as a hard asset with the best store of value. Also, Argentine farmers held on to their crops to protest high export taxes, fuel costs, and inequitable treatment of farm debt. They waited to see whether the peso stabilized or if rising U.S. prices continued. Trucker strikes further complicated transportation of crops.

To encourage soybean deliveries, Argentine exporters offered producers the opportunity to deliver sales immediately after harvest and defer pricing (with no discounts for storage) through August. Still there was only a modicum of farm sales and Argentine exporters had little to sell abroad. Thus, the government was unable to reap tax payments from agricultural exporters, the leading source of tax revenue for the cash-strapped treasury. The International Monetary Fund has yet to restore lending to the country. Having few financial resources, the Argentine government suspended the promised rebates of delinquent value-added tax to exporters. This hurt the ability of proces-

sors to expand output and to offer farmers better prices for their crops.

At the same time, demand from Argentina's largest soybean customer (China) had stalled. Thus, most of Argentina's increased 2002/03 supplies will be stocks carried over from the previous year. Argentine farmers have little cash to pay off debts or buy new inputs, so when they start planting new crops this October they should favor planting proportionately more oilseeds than feed grains. If fewer inputs are applied, lowering yield potential, the expansion in 2002/03 soybean output may moderate.

Like Argentina, **Brazilian** soybean producers also had a record-large 2001/02 crop that was sold piecemeal. Farmers locked in relatively high prices last year on a portion of the crop with forward sales and Brazil's soybean area surged 17 percent. Brazilian soybean prices slumped earlier this year when the currency strengthened against the dollar. But, farmers were capitalized well enough to wait for better post-harvest returns, which came by August after a substantial depreciation and a spike in U.S. prices. Low soybean shipments by Argentina and the resumption of import demand by China also subsequently accelerated Brazilian sales. Fortunes should turn in favor of South American soybean exports in 2002/03 as higher U.S. prices, larger South American supplies, and favorable exchange rates cut deeply into the U.S. market share for global exports. **AO**

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